

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 EB-08  
FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06  
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00  
OMB-01 SS-15 OES-07 PM-05 DODE-00 /114 W  
-----015028 081722Z /53

R 081440Z SEP 77  
FM AMEMBASSY MOSCOW  
TO SECSTATE WASHDC 1898  
USDOC WASHDC  
INFO AMEMBASSY PARIS  
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 13080

USOECD

E.O. 11652: GDS  
TAGS: EEWT, COCOM, ESTC, EQIP, JA, UR  
SUBJECT: IBM OFFICIALS DISCUSS SOVIET APPLICATION OF COMPUTERS

SUMMARY: IBM (EUROPE) PRESIDENT FOLEY AND THREE ASSOCIATES CALLED ON AMBASSADOR SEPTEMBER 8 TO DISCUSS SALES PROGRAM IN USSR. FOLEY DISMISSED SOVIET INSINUATIONS THAT WEST EUROPEAN COMPETITORS ARE SKIRTING COCOM REGULATIONS, BUT HE EXPRESSED SOME CONCERN ABOUT POTENTIAL JAPANESE COMPETITION. ACCORDING TO HIM, JAPANESE ARE STRONG ON COMPONENTRY AND TRADITIONALLY DO NOT LIKE TO PROVIDE SERVICING WHICH IBM RELIES ON AS SYSTEM, ALBEIT "IMPERFECT," OF ENSURING LEGITIMATE USE OF COMPUTERS BY SOVIET PURCHASERS. IBM OFFICIALS RATED SOVIET STATE OF ART ABOUT A GENERATION BEHIND US INsofar AS MASS MARKET IS CONCERNED, BUT FOLEY PRESUMED SOVIET CAPABILITY QUICKLY TO PRODUCE ADVANCED COMPUTERS FOR SPECIAL USE. WHILE QUALITY OF TOP PERSONNEL IN MINISTRY OF INSTRUMENT MAKING, AUTOMATION AND

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EQUIPMENT CONTROLS SYSTEM IS HIGH, IN THEIR VIEW, IT IS AT THE ENTERPRISE MANAGEMENT LEVEL WHERE THE SOVIET SYSTEM FAILS, LACKING ANY PRESSURE FROM MARKET OR COMPETITORS. END SUMMARY.

1. IBM (374903) PRESIDENT MARTIN FOLEY, ACCOMPANIED BY BRADLEY LESHER, PRESIDENT OF IBM TRADE DEVELOPMENT,

S.A., AND TWO COLLEAGUES, CALLED ON AMBASSADOR SEPTEMBER 8 TO DISCUSS IBM SALES PROGRAM IN USSR. NOTING THAT IBM HAS NOT DONE SUFFICIENT BUSINESS IN USSR TO AFFECT ITS OVERALL OPERATIONS, FOLEY STATED THAT FOUR SYSTEMS ALREADY INSTALLED HERE AND SIX FOR WHICH CONTRACTS HAVE BEEN SIGNED ARE ALL IN THE 148, "MIDDLE COLUMN" CATEGORY, WITH LIMITED STORAGE CAPACITY. SOVIET OFFICIALS COMPLAIN THAT TECHNOLOGY IS "OBSOLETE," HE EXPLAINED, BUT WHILE 148 DOES NOT POSSESS THE MOST ADVANCED CIRCUITRY, IT IS A STEP AHEAD OF WHAT THE SOVIETS CAN DO FOR THEMSELVES.

2. THE AMBASSADOR COMMENTED THAT EXPORT LICENSING DOES NOT DEPEND ONLY ON THE SIZE OF THE COMPUTER. LESHER CONCURRED, NOTING THAT IBM HAD DECLINED TO SELL A COMPUTER IN A MACHINE TOOL CASE WHERE THE USG HAD INDICATED OPPOSITION. FOLEY EXPRESSED CONCERN ABOUT THE PROSPECT OF JAPANESE COMPETITION FOR THE SOVIET MARKET, OBSERVING THAT ONE OF THE JAPANESE STRENGTHS IS THE SIZE OF THEIR MACHINES. THE JAPANESE, HE THOUGHT, ARE GOOD AT "COMPONENTRY." A PROBLEM WITH REGARD TO CONTROL OF THE USE OF THE EQUIPMENT BY THE SOVIET PURCHASER IS THAT THE JAPANESE ALSO TRADITIONALLY LIKE TO HAVE LOCAL PARTNERS DO THE MAINTENANCE WORK. THE AMBASSADOR INQUIRED IF IBM FELT THAT WEST EUROPEAN COMPETITORS MIGHT SHADE SOME COCOM EXPORT LICENSING RESTRICTIONS. LESHER  
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EXPRESSED VIEW THAT THEY DO NOT, DESPITE SOVIET INSINUATIONS TO THE CONTRARY. HE MENTIONED THE DANGER, HOWEVER, THAT "THIRD PARTIES" MIGHT SEND IN EQUIPMENT OUTSIDE OF THE COCOM CONTROL MECHANISM. FOLEY STATED THAT ONE "ADVANTAGE" OF IBM MACHINES IS THAT THEY REQUIRED PLENTY OF MAINTENANCE. ASKED BY THE AMBASSADOR IF OTHERS THAN IBM ITSELF COULD PROVIDE THIS, FOLEY ACKNOWLEDGED THE POSSIBILITY BUT SAID IBM KNOW PRETTY WELL WHERE ITS MACHINERY IS LOCATED. NO "MASS MOVEMENT" OF THE EQUIPMENT WOULD BE POSSIBLE WITHOUT DETECTION.

3. IN RESPONSE TO AMBASSADOR'S INQUIRY ABOUT STATE OF COMPUTER ART IN USSR, FOLEY SAID THAT JUDGING BY MEETING HE HAD AT DEPUTY MINISTER LEVEL IN MINISTRY OF INSTRUMENT MAKING, AUTOMATION AND EQUIPMENT CONTROL SYSTEMS, THE ABILITY AT THAT LEVEL IS HIGH. THE SOVIETS, HOWEVER, SEEM ONE TO TWO GENERATIONS BEHIND IN STORAGE. THEY ARE ALSO ONE GENERATION BEHIND IN RADIO TECHNOLOGY, IN FOLEY'S VIEW. THE AMBASSADOR COMMENTED THAT THIS WAS PRESUMABLY NOT TRUE OF THE SOVIET MILITARY. FOLEY AGREED IT WAS VERY LIKELY THAT THE MILITARY HAD BETTER COMPUTERS (IBM MOSCOW REPRESENTATIVE MERRILL ADDED: "HAND BUILT"). ASKED IF

THEY COULD DETECT ANY SPINOFF IN THE CIVILIAN AREA FROM COMPUTER RESEARCH OR PRODUCTION BY THE MILITARY, THE IBM OFFICIALS SAID THEY HAD NO KNOWLEDGE OF ANY. AFTER THE AMBASSADOR POINTED TO SOVIET SPACE PROGRAM AS SUGGESTIVE OF THE APPLICATION OF ADVANCED COMPUTER TECHNOLOGY, FOLEY EXPLAINED THAT HIS REMARK ON BACKWARDNESS OF SOVIET INDUSTRY REFERRED ONLY TO ABILITY TO PRODUCE FOR THE MARKET. HE SAID THAT IBM AND, PRESUMABLY OTHERS, COULD QUICKLY PRODUCE A "SPECIAL MACHINE" WHICH WOULD BE A GENERATION OR TWO AHEAD OF THE CURRENT MARKET, EVEN THOUGH MASS PRODUCTION WOULD TAKE YEARS.

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4. IN FURTHER DISCUSSION OF QUALIFICATION OF SOVIET OFFICIALS TO HANDLE COMPUTER TECHNOLOGY, LESHER CONTRASTED CAPABILITY OF MINISTRY AND SCST TOP LEVEL PERSONNEL WITH PERSONNEL IN FOREIGN TRADE ORGANIZATIONS, WHO WERE NOT NEARLY SO GOOD. THE SOVIET APPLICATION OF TECHNOLOGY, HOWEVER, REALLY FALLS DOWN AT THE ENTERPRISE MANAGEMENT LEVEL, LESHER THOUGHT. FOLEY AGREED, CITING LACK OF PRESSURE EITHER FROM A MARKET OR FROM COMPETITORS AS REMOVING THE MAIN IMPETUS FOR SUCCESSFUL APPLICATION OF TECHNOLOGY. THE AMBASSADOR ADDED THAT THE DEAD HAND OF THE PARTY SHOULD ALSO NOT BE OVERLOOKED, SINCE STRONG PARTY BACKING - NOT MER TECHNICAL ABILITY - IS NECESSARY TO WIN ACCEPTANCE. DOWNGRADING THE PARTY ROLE

MIGHT MAKE THE SOVIETS MORE COMPETITIVE, BUT THEN THIS WOULD  
MEAN A DIFFERENT SOVIET SYSTEM FROM THE ONE WHICH EXISTS.  
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